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RUEHRB/AMEMBASSY RABAT 1472
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RUEHTU/AMEMBASSY TUNIS 6328
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SUBJECT: KHELIL ON PROGRESS IN ALGERIAN ENERGY SECTOR

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11. (U) SUMMARY: Minister of Energy Chakib Khelil gave a public overview October 8 of the Algerian energy and mining sector's successes over the last five years. He probably underestimated the true long-term impact, given the long gestation period of energy exploration projects. According to Khelil, Algeria's growth in new energy extracts outpaced growth in its exports from 2001 to 2006. As the share of domestic energy consumption holds steady at around one-fifth of Algeria's total energy output, Khelil's data suggest that Algeria will need to forge swiftly ahead with its various transit projects -- including new gas pipelines, undersea electricity cables bound for Europe, and enhanced LNG infrastructure -- to meet the demands of present and future upstream development. Slow expansion of Algeria's electricity production capacity compared to consumption underscores the need for new power plants slated to come online in the next three years. Khelil also reported the completion of a feasibility study for a trans-Sahara gas pipeline and speculated that North American gas prices would soon converge with those in Asian and European markets. End summary.

EXTRACTION EXCEEDS EXPORTS; POWER DEMAND OUTSTRIPS CAPACITY

12. (U) In an October 8 press conference, Minister of Energy and Mines Chakib Khelil offered a broad overview of progress in the Algerian energy and mining sector since 2000. (Note: He offered no new details on the new hydrocarbon legislation or its anticipated implementing regulations. End note.) From 2000 to June 2006, Algeria signed 43 exploration contracts, realized 62 gas and petroleum discoveries (12 this year), and saw USD 24 billion of investment in the sector (USD 13 billion of which was for projects with foreign partners). The total quantity of hydrocarbon extracts grew roughly 4 percent per year between 2000 and 2005, from 152 million tons of petroleum equivalent (TEP) in 2000 to 180 TEP in 2005. In comparison, the volume of Algeria's hydrocarbon

exports grew about 3 percent per year, from 124 TEP in 2000 to 145 TEP in 2005. The value of these exports from 2000 until June 2006 totaled USD 186 billion, of which USD 27 billion has been earned this year. Of these revenues, the Algerian treasury received USD 132 billion; some USD 20 billion of these receipts are from the first half of 2006 alone. Khelil added that the Algerian energy sector employs 207,000 workers, of which 41,000 are in the private sector.

¶3. (U) Khelil said that national energy consumption grew from 30 million TEP to 35 million TEP from 2000 to 2005, reaching 18 million TEP in the first half of this year. This includes petroleum products (11.6 million tons in 2005, up 6 percent per year since 2000); natural gas (up 7 percent per year since 2000), and electricity consumption (reaching 27.3 terawatt hours in 2005, up 6 percent per year since 2000). Khelil's figures reveal that Algeria consistently allocates about one-fifth of its hydrocarbon production to domestic consumption and four-fifths to export. The minister also touted the country's success in supplying utilities to rural populations. From 2000 to 2005, Algeria installed 22,500 kilometers of electric lines, connecting an additional 270,000 households. As of June 2006, 5.7 million total households (96 percent) benefit. Similar progress has been made with gas distribution: today 2.1 million households (36 percent) have a gas connection, compared to 29 percent in 2000.

¶4. (U) Khelil's data reveal that Algeria's demand for electricity outstripped the growth in new capacity, underscoring Algeria's critical need for additional power generation. He noted that Algeria's electricity output grew 6 percent per year (from 25 to 34 terawatt hours) while its generating capacity expanded 4 percent per year (from 5900 megawatts to 7100 megawatts as of June 2006). (Note: The chief executive of Sonelgaz, Algeria's state-run electricity

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provider, announced in early October that the country's generating capacity was slated to increase 3,800 megawatts in the next three years as seven new power plants come online. End note.)

NIGERIAN PIPELINE PLANS

¶5. (U) Khelil signaled progress on the planned 4,100-kilometer, trans-Sahara gas pipeline that would cross Algeria and Niger to supply Nigerian gas to European markets. Embassy contacts informed us that the UK firm Penspen presented a feasibility study on September 19 to the Algerian, Nigerian and Nigerian energy ministers detailing the prospects for the USD 10 billion project. The pipeline would have a capacity of 20 to 30 billion cubic meters of gas per year and come online by 2015. Khelil asserted that the project would be good for the environment by limiting gas flaring, presumably in Nigeria. He also remarked that it would help supply gas to the traversed countries (i.e. Niger and Algeria) and offer "synergies" for unspecified road and fiber optic cable projects along the same path.

MINING SECTOR IS ALGERIA'S HIDDEN GEM

¶6. (U) Khelil also detailed Algeria's successes in the often-overlooked mining sector, reporting that the sector grew an average 10 percent per year since 2000, fueled by production of gold, iron and other aggregates. Australian and Indian firms, as well as the Egyptian consortium Orascom, had invested in various projects in the USD 10 million range. He said that Algeria recently signed a protocol of agreement with China's Hunan Province for a USD 17 million zinc project in El Abed. Khelil described how the 2001 mining law had successfully opened up the industry to the private sector. Since then, Algeria has granted 581 mining licenses for small and medium-sized mines in 18 auctions, generating USD 36

million in royalties for the state. Some of the strongest growth has been Algeria's production of mining aggregates, such as clay and sand, which are used in the booming construction sector. Output of aggregates grew 21 percent per year since 2000 and is expected to grow an additional 36 percent by the end of the year, for a total output of 30 million cubic meters. Aggregates, the minister added, have created 27,000 jobs, of which 17,000 are in the private sector.

OPEC VP KHELIL ON INTERNATIONAL MARKETS

17. (SBU) Khelil, who was elected vice president of OPEC in September, described the 17-dollar drop in oil from its record high as due to replenished spare capacity, a perception of improved geopolitical stability, and mild meteorological conditions. In contrast to crude oil markets, he claimed, "the commerce of natural gas does not take place in a globalized market." Khelil described the Asian, European and North American gas markets as operating semi-autonomously. In the Asian and non-UK European markets, the vast majority of gas trade was based on long-term contracts for which the price of gas was indexed to the price of oil or petroleum products, "though with a gap of generally 3 to 6 months." He characterized the American and UK markets, which are driven by spot and commodities markets, as significantly more volatile. Khelil opined that in the near future the price of gas in all three continents would reflect the price of crude, which remains the "driving price of energy on the global level," except for seasonal shortfalls and short-term disequilibria.

COMMENT

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18. (SBU) Khelil did not explain why he thought the behavior of American and European/Asian gas markets would converge. Nor did he explain why he chose the 2000-2005 window for his discourse on Algeria's energy sector development. The timeframe corresponds roughly, however, with the broad opening of the sector to foreign investment that started when Khelil was CEO of Sonatrach. Khelil's rendition of the successes his sector has achieved may have been intended to allay rumors recently bruited by Algeria's Arabic-language press that he could lose his job as part of a future cabinet reshuffle. Those rumors have abated somewhat since Khelil's election as OPEC vice president. It would presumably be seen as embarrassing for Algeria were President Bouteflika to take away his energy portfolio just as he is beginning his OPEC tenure.

DAUGHTON